GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3645
ANSWERED ON:16.12.2005
CASH RESERVE RATIO
Ramadass Prof. M

Will the Minister of FINANCE be pleased to state:

(a) whether there is a proposal to give flexibility to the Reserve Bank of India (RBI) to cut Cash Reserve Ratio below 3%;

(b) if so, the details thereof;

(c) whether this move will affect the price situation in the country;

(d) if so, the details thereof; and

(e) the new instruments that would be introduced for covering interest rate risks in the event of the above policy?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a)to(e) : Cash Reserve Ratio (CRR) is one of the instruments of monetary control. As per the extant provisions of the Reserve Bank of India Act, 1934 there is a floor (3.0 per cent) and a ceiling (20.0 per cent) on CRR to be prescribed by the Reserve Bank of India (RBI). The Reserve Bank of India (Amendment) Bill, 2005 proposes to remove these limits to facilitate a more flexible conduct of monetary policy. The prescribed CRR has come down from a high of 15.0 per cent of net demand and time liabilities (NDTL) in 1991 to the current level of 5.0 per cent, consistent with the medium-term objective of reducing it to 3.0 per cent. RBI in the Annual Policy Statement (April 2005) and the Mid-Term Review of the Annual Policy Statement (October 2005) has reiterated that it will continue to ensure appropriate liquidity in the system so that all legitimate requirements of credit arc met, consistent with the objective of price stability. RBI has the freedom to employ all the policy instruments at its disposal flexibly, as and when the situation warrants.